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INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RHEHNSC/NSC WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC

UNCLAS SECTION 01 OF 02 MANAGUA 002564

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STATE FOR WHA/CEN, WHA/EPSC, AND EEB/IFD
TREASURY FOR SARA GRAY
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN
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TAGS: EFIN ECON PGOV NU
SUBJECT: Nicaragua Retires USD 1.4 Billion in Foreign Commercial Debt

REF: Managua 1672

¶1. (SBU) Summary: On December 5, the GON announced the successful completion of its foreign commercial debt buy-back operation, allowing it to retire USD 1.4 billion in foreign debt claims. Nicaragua will pay 4.5 cents on the dollar to over 111 commercial creditors, including all of the vulture funds which held judicial decisions against Nicaraguan assets overseas. Seven donors, including the World Bank, contributed USD 71 million to the program. An essential component of the operation was the agreement by the vulture funds to vacate their judicial claims on Nicaraguan assets. This buy back theoretically permits the GON to once again operate freely in the international financial market. End Summary.

USD 1.4 billion in Debt Retired

¶2. (U) On December 5, the GON announced the successful completion of its foreign commercial debt buy-back operation, allowing it to retire USD 1.4 billion in foreign debt claims, paying only 4.5 cents on the dollar. Nicaragua's nominal foreign debt is now USD 3.26 billion, equivalent to 160% of exports (estimated 2007 exports total USD 2 billion), representing a debt-to-GDP ratio of 60% (estimated 2007 GDP is USD 5.5 billion). This program is the latest step in Nicaragua's Highly Indebted Poor Country (HIPC) initiative, launched in 2004. The only remaining external arrears are non-Paris club bilateral debt, of which Costa Rica and Libya are the largest creditors (Reftel). When the Sandinistas left power in 1990, Nicaragua's foreign debt totaled USD 10.7 billion, later reaching its peak at USD 11.7 billion in 1994. Commercial debt relief will have no effect on Nicaragua's 2008 budget, as there were no scheduled payments.

¶3. (U) Eighteen months since the GON first requested donor participation in the project, the program will complete its first closing on December 12 with 111 creditors subscribed, representing 94% of all creditors. Nicaragua will complete a second closing during the first quarter of 2008, when Ministry of Finance officials expect to secure further debt relief from creditors currently finalizing their tenders. They hope to have all foreign commercial creditors signed up for the program by summer of 2008. Nicaragua's debt-buy back operation is unique because it is the first time that all litigating creditors and vulture funds are participating in such an operation.

Where the Money Came From

¶4. (U) The GON completed the buy-back operation with assistance from the World Bank (WB) and other donors. The WB provided an IDA-Debt Reduction Facility of USD 32.5 million, and donors deposited USD 28.5 million into a WB trust fund to assist the buy-back operation. The commercial creditors will receive USD 64.5 million, about 4.5 cents on the dollar (i.e. on principal, interest charges, and penalties.) (Note: Excess funds will be used to pay for ancillary expenses such as the audit required by WB; any further excess will be returned to donors on a pro-rata basis. End Note.)

¶5. (SBU) Donor contributions to the operation were:
-- Norway   USD 9.9 million
-- Sweden   USD 5.1 million
-- UK   USD 3.5 million
-- Netherlands USD 3 million
-- Russia   USD 5 million
-- Finland   USD 2 million
-- Nicaragua contributed USD 3.5 million of its own funds.

The Benefits of Completion

¶6. (U) Most of the original creditors on this commercial debt, accrued in the 1970s and 1980s, sold the debt to hedge/vulture funds when Nicaragua ceased servicing the debt in the 1980s. All four vulture funds holding Nicaraguan commercial debt subscribed to the program and have agreed to vacate all legal claims against GON assets. This buy-back will allo QvIN undertake international financial transactions and deposit its reserves in locations that earn better interest. Due to the 2003 judgments held by the vulture funds, Nicaragua has kept all of its reserves at the Bank for International Settlements in Basel, foregoing an estimated USD 3 million in interest a year. To protect funds for its embassies and consulates in the United States, the GON funneled the money through accounts held by the Ambassador and consuls. The GON hopes that this operation will also pave the way for the normalization of Nicaragua's relationship with the international financial community and contribute to the improvement of Nicaragua's credit rating.

Comment

¶7. (SBU) While this program was devised by the Bolanos administration, credit goes to the Ortega administration for not letting the opportunity drop. The true beQWQod9v-
operations here can only hurt any renewed effort to tap into global capital markets.

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